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UNITED STATES DEPARTMENT OF AGRICULTURE
FOOD DISTRIBUTION ADMINISTRATION
WASHINGTON, D. C.

March 11, 1943

COMPLIANCE BRANCH MEMORANDUM NO. 1



To: All Compliance Branch Personnel
From: J. M. Mehl, Chief, Compliance Branch
Subject: Objectives and Functions of the Compliance Branch

In accordance with Food Distribution Director's Memorandum No. 1, dated January 4, 1943, there is established a Compliance Branch Memorandum series. This series will provide a means of communication between Washington and the field personnel. This first memorandum relates to the OBJECTIVES and FUNCTIONS of the Branch.

In Executive Order No. 9280 placing upon the Secretary of Agriculture responsibility for and control over the Nation's food program the President stated that the objective was "to assure an adequate supply and efficient distribution of food to meet war and essential civilian needs." In order to make it possible for the Department to set up a national "assembly line" in the production and distribution of food the Secretary realigned the Department's administrative set-up. The Department was regrouped into three major units, the Food Production Administration, the Food Distribution Administration, and the Agricultural Research Administration. Mr. Roy F. Hendrickson was designated Director of the Food Distribution Administration.

Under date of January 13, 1943 Mr. Hendrickson issued Director's Memorandum No. 2 entitled "Organization of the Food Distribution Administration." That memorandum established the Compliance Branch and defined its functions as follows:

"To prevent speculation, profiteering, holding, and fraud in all phases of the food distribution program of the Administration and for this purpose, to conduct investigations of processing and marketing conditions and methods; to administer the Commodity Exchange Act, as amended; to investigate and report on violations of agreements, orders, and regulations which are issued to effectuate the marketing, purchase, and other programs of the Administration; to perform other investigative and related services as required; to devise and install accounting systems for agencies cooperating in the Administration's programs; to audit the accounts of cooperating agencies; to exercise the powers of inspection and audit of war contractors."

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Director's Memorandum No. 2, Supplement 4, consolidated the former Investigation Division of AIA and the Commodity Exchange Branch of AIA into the FDA Compliance Branch. The Washington organization of this Branch consists of the Office of the Chief and six divisions.

GENERAL BACKGROUND

The Food Distribution Administration is engaged in purchasing, procuring, and distributing food for our armed forces, other branches of the Federal Government, and several allied nations. It is purchasing food for the Army, Navy, Marine Corps, Veterans Administration, Lend-Lease Administration, Red Cross, a number of allied governments, and for numerous other agencies. It is responsible for the equitable distribution of food products and the initiation, operation, and enforcement of programs, including reservation and allocation of supplies to achieve this end.

To the Compliance Branch has been assigned the responsibility for preventing speculation, profiteering, hoarding, and fraud in all phases of the food distribution program. It is essential that prompt investigations be made of alleged or apparent cases of speculation, profiteering, hoarding, and fraud and that violations be vigorously prosecuted.

The prevention of fraud, profiteering, hoarding, and speculation will be accomplished by (a) audits of the profits on food sales, (b) continuing investigations of speculative inventory hoarding, and (c) investigation and prosecution of alleged or apparent cases of violation.

(a) Audits of profits on food sales.- It is of primary importance that audits be made of the books and records of firms selling to the Food Distribution Administration as a means of determining profits and charges. It will be the function of the Compliance Branch to establish systems and work out schedules of field accounting assignments to permit these audits and examinations to be made. In the event the volume of them should become so great that complete audits cannot be made of the books and records of all firms it is contemplated conducting this work on a sampling basis.

In addition to the continuing analysis of profits on food sales the advice of each commodity branch will be sought as to the type of contract to be examined. In general, the larger contracts made with a particular concern, perhaps amounting to \$100,000 or more, will be considered. Investigations will also be made where a large proportion (perhaps one-third or more) of a firm's sales are to the Food Distribution Administration, where aggregate sales of all commodities to the Food Administration by a firm over a short period of time are very substantial (say \$500,000 or above), or where margins between farm price and purchase price levels are excessively large.

(b) Continuing investigations of speculative inventory hoarding.- A second function is the investigation of speculative inventory hoarding. Through

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other branches much information is available on location of supplies. But continuous and complete information on location and ownership of foodstuffs once they have left the hands of the first seller and on forward sales is not generally available. Such information will become especially important as supplies become scarcer and rationing more widespread.

(c) Investigation and prosecution of alleged or apparent cases of violation.- In all probability the major portion of the investigatory work required in connection with the compliance program will result from complaints and charges received from the public. There are over 100,000 food processors and dealers above the retail level in the United States, all of whom will be influenced directly or indirectly by the food distribution program. While the great majority of them may be depended upon to cooperate whole-heartedly in the program, some will violate the rules, regulations, and orders thus necessitating investigation and prosecution.

ACCOUNTS AND AUDITS DIVISION

The functions of the Accounts and Audits Division are to formulate, interpret, and apply accounting policies and render instructions and advisory opinions in connection with technical and controversial auditing and accounting questions, to examine books and records and conduct audits in connection with alleged or apparent violations, to audit the books and records of war contractors, vendors of lend-lease supplies, and commodities purchased under Section 32, Territorial emergency programs, Red Cross, etc., to devise and install accounting systems for agencies cooperating in the Administration's program, to audit books and records of futures commission merchants as a means of assuring proper segregation of customers' funds, to examine financial statements of futures commission merchants, to aid in investigations of violations of the Commodity Exchange Act, to conduct audits of trading and positions in commodity futures, and to appear as expert witnesses in administrative and court cases.

The Accounts and Audits Division is an operating division planning, directing, and supervising the work of a large corps of accountants located in all parts of the United States. In its broader aspects, the Accounts and Audits Division affords a highly specialized accounting and auditing service for the Director and for the commodity branches in which is lodged authority over food purchases. This service also extends to and includes the compilation and interpretation of financial data as an aid in applying and enforcing the administrative policies of the Branch and in the prosecution of violations in administrative and criminal cases.

In point of volume, the auditing and accounting work largely depends upon the personnel available inasmuch as purchases which run into billions of dollars might all be reviewed to advantage. First consideration will be given, of course, to alleged or apparent cases of fraud and profiteering with a sampling system later applied.

The Accounts and Audits Division is divided into two sections: Regulatory Audit Section and Purchase Audit Section.

ANALYSIS AND REVIEW DIVISION

It is the function of the Analysis and Review Division to prepare basic analyses and to review surveys and reports as an aid in the detection of illegal market activities and market maladjustments and the formulation of policies; to conduct analyses of processing and marketing conditions and methods, separately or in conjunction with commodity branches, as basis for investigations or surveys; to analyze conditions relating to inventories, availability, storage and warehousing, prices, and the flow of supplies, particularly with respect to surveys and spot checks under consideration or in operation; to review surveys and operating reports required in connection with food orders, and to maintain liaison with the commodity branches and the Requirements and Allocations Control with respect to current and anticipated critical supply conditions; to make current analyses of futures trading, cash-futures relationships, deliverable supplies, and price movements, and to establish trading limits under the Commodity Exchange Act; to review crop and market information; and to furnish information and recommendations for administrative use.

From time to time it will be necessary to undertake in connection with food orders on the initiative of the Compliance Branch, industry-wide spot checks or surveys of actual conditions in an industry. Preparatory analyses of market conditions based in part on review of investigation reports covering specific violations, current summaries of cases investigated in each region, and other information received directly by the Compliance Branch will be required. Through contact with commodity branches information available from industry reports of purchases, sales and inventories required in connection with operation of food orders and similar information available from other Government agencies will be obtained as needed in particular instances, in addition to source materials on prices, operating margins and supplies. Analysis of operating margins as indicated by relative prices at various levels of processing and distribution and of corporate profits would provide a basis for the selection of commodities and the stages of production for which thorough cost studies should be made to detect profiteering. Other analyses of market conditions will be required in connection with enforcement of the Commodity Exchange Act.

The Analysis and Review Division consists of two sections, Market and Price Section and Reports and Analysis Section.

COSTS DIVISION

In order to prevent profiteering it is the function of the Costs Division to make analytical and interpretative examinations of detailed accounting data and reports of suppliers of lend-lease and other materials which are compiled by the field accountants of the Accounts and Audits Division for the purpose of determining allowable items of cost, to compile and analyze unit costs, to ascertain and determine admissible costs, to examine profits and charges, to obtain a comparative appraisal of profits on each of the various commodities purchased by the Administration, to outline and prescribe basic principles governing the determination of costs, and to review and

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analyze audit reports and other accounting and statistical data to determine the reasonableness of costs to the Government.

Since food purchases will continue in increasing volume for the duration of the war and probably for some time afterward, it is imperative that analytical and interpretative examinations be made of the detailed auditing data and reports which are prepared by the field accountants. Upon this work will be based general accounting principles governing the determination of costs, profits, and charges. The value of this work will be twofold: It will be used as a foundation upon which to base claims for profiteering or excessive charges against the Government and, secondly, it will furnish the material for basic accounting principles, standards, and procedures for adoption by vendors to the Food Distribution Administration.

The work of the Costs Division will be divided between two sections, an Analysis Section and a Standards and Review Section.

LICENSE DIVISION

It is the function of the License Division to receive and examine applications for licenses and registrations and to issue licenses and certificates as may be required by law, Executive order, or regulations of the Secretary of Agriculture, to maintain and classify orders, rules, regulations, agreements, and other documents issued by the Administration and cooperating agencies, to designate commodity exchanges as contract markets, to register futures commission merchants and floor brokers, and to examine rules and regulations of contract markets.

In normal times trading in commodity futures under the Commodity Exchange Act aggregating approximately 25 billion dollars annually is carried on in about 20 commodities on 18 commodity exchanges. No commodity exchange may permit futures trading in the commodities under the Commodity Exchange Act unless such exchange has been designated a contract market by the Secretary of Agriculture. To be so designated, a commodity exchange must meet certain statutory requirements relating to location, commodity trading conditions, availability of approved inspection facilities and numerous other requirements.

Any firm or broker who accepts orders for the purchase or sale of commodity futures must be duly registered by the Secretary of Agriculture. No person may act as a floor broker to execute orders on the floors of exchanges unless he is registered by the Secretary of Agriculture. There are approximately 600 futures commission merchants and 600 floor brokers registered each year. This registration is required to facilitate the supervision of the activities of futures commission merchants and floor brokers and the procurement of information concerning the commodity transactions of their customers, which information is of material assistance in the enforcement of the regulatory provisions of the statute.

1. The first part of the paper discusses the importance of the study and the objectives of the research. It also mentions the scope of the study and the limitations. The second part of the paper discusses the methodology used in the study. It mentions the data sources and the data collection methods. The third part of the paper discusses the results of the study. It mentions the findings and the conclusions. The fourth part of the paper discusses the implications of the study. It mentions the practical applications and the future research. The fifth part of the paper discusses the conclusion of the study. It mentions the overall findings and the recommendations.

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The License Division reviews proposed commodity exchange rules and regulations and amendments thereof to determine if they conflict with the statutory requirements or appear inimical to the proper functioning of contract market futures trading facilities. The License Division also has charge of the receipt, arrangement, classification, and maintenance of orders, rules, regulations, and other documents received by the Compliance Branch.

TRADING DIVISION

The functions of the Trading Division are to compile, analyze, and summarize all statistical and factual material relating to current activities on spot and futures markets; to prepare summary and statistical reports for administrative use; to review and scrutinize trading and operations on futures and spot markets; to review trading and positions of large traders; to compile spot and futures prices and quotations; to provide a continuous source of up-to-the-minute reports on futures prices, cash prices, and market news; to compile and tabulate volume of trading and open contracts on futures markets; to compile and publish data regarding unfixed call sales; and to tabulate factual material secured through field investigations.

Commodity futures trading is supervised by the Federal Government for the purpose of preserving its open competitive status, increasing the value of the contract market as an instrument of price determination and reducing the price risk in merchandising and preventing price fluctuations due to manipulation or excessive speculation. Daily reports on the total volume of trading, open contracts, character of trading, deliveries and similar material are filed periodically with the Trading Division. These reports furnish the raw material for the supervisory activities of the Trading Division. The Trading Division also compiles data necessary for the enforcement of speculative limits, compiles and reviews current information on futures and selected cash commodity transactions, and maintains a quotation and ticker service.

VIOLATIONS AND COMPLAINTS DIVISION

It is the function of the Violations and Complaints Division to conduct periodic and special investigations of programs and activities of the Administration, including the investigation of alleged or apparent malfeasance or misfeasance on the part of any individual, firm, or corporation dealing with the Administration; to investigate and report upon violations of marketing agreements and orders, food orders, and regulations issued to effectuate the marketing, purchase, distribution, and other programs of the Administration; to investigate violations of the Commodity Exchange Act, and to conduct investigations of trade practices and commodity market floor trading; to make investigations in connection with economic analyses of processing and marketing conditions and methods; to review the records of violation cases; to make recommendations for administrative and/or court disposition; to collaborate with the Office of the Solicitor in the prosecution of violations; to appear as witnesses in administrative hearings and court cases; and to prepare currently statistical summaries of investigations, hearings, court proceedings, and the status of pending cases.



The scope of the work of the Division of Violations and Complaints covers all investigative phases of compliance activities. The investigations relate to fraud, profiteering, hoarding, and speculating in connection with food orders, marketing agreements and rules and regulations which are issued to effectuate the marketing, purchase, and other programs of the Administration as well as the enforcement of the Commodity Exchange Act. A Nationwide organization carries out the work of the Violations and Complaints Division.

It is the purpose of the Violations and Complaints Division to make such investigations, assemble such facts and material, and assist in prosecutions so as to eliminate fraud, profiteering, hoarding, and speculation in connection with the food program. As a means of giving technical advice and direction to the large field organization, the Violations and Complaints Division has been organized into three sections: Distribution Programs Section, Purchase and Food Order Violations Section, and Commodity Exchange Section.

A handwritten signature in cursive script, appearing to read "J. M. Mearl". The signature is written in dark ink and is located in the lower right portion of the document.

